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PASS TO DEPARTMENT OF STATE - OFFICE OF INVESTMENT AFFAIRS (EB/IFD/OIA), USDOC WASHDC, AND CIMS NTDB WASHDC

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SUBJECT: BOLIVIA - 2010 Investment Climate Statement

REF: 09 STATE 00124006

¶1. In response to reftel, Embassy La Paz submits the following 2010 Investment Climate Statement.

¶2. The Bolivian investment climate is undergoing a transformation. In February 2009, the Movimiento al Socialismo (MAS)-led government obtained passage of a new constitution which aggressively promotes social inclusion, state-owned enterprises, control of natural resources, and worker's rights. Key provisions of the new constitution stipulate:

???? that Bolivian investment will be prioritized over foreign investment (Article 320);

???? that economic activity cannot damage the collective good (Article 47);

???? the right to private property -- as long as it serves a social function and is not against the collective interest (Article 56);

???? that transferring national resources that are the "social property of the Bolivian people" in favor of companies, people, or foreign states can be considered an act of treason (Article 125); and

???? that Bolivian constitutional law supersedes international law and treaties (Article 410).

¶3. President Evo Morales was reelected in December 2009. That election also resulted in a legislative majority for his party, Movimiento al Socialismo (MAS). As part of their campaign, MAS pledged to pass over 100 laws to implement the new constitution's provisions. These laws are expected to address indigenous land use rights; the respective roles of the legislative, judiciary, and executive branches; foreign investment; ownership of natural resources; public spending on health and education; and the roles of national, departmental, municipal, and indigenous authorities. However, until the legislative branch acts to enforce the new constitution, uncertainty will remain concerning what specific limitations may be placed on foreign participation in the national

economy. The 166th Congress was inaugurated and began its work on January 5, 2010.

Openness to Foreign Investment

¶4. Bolivia remains generally open to foreign direct investment, but the new constitution specifies that Bolivian investment will be prioritized over foreign investment (Article 320). Currently, foreign firms are not subject to special registration requirements and current investment law (Law 1182, 1990) provides for national treatment of foreign firms. However, a provision of the new constitution requires reinvestment within Bolivia of private profits from natural resources.

¶5. Rule of law is weak and the judicial system is in transition. Several members of Supreme Court face impeachment trials and the Constitutional Tribunal, the country's highest authority on constitutional matters, has not met since 2007 due to lack of a quorum. Members quit the tribunal for a variety of reasons including violent protests by government supporters, a 50% pay cut, an attempt by the legislature to impeach four members, and health problems. The new constitution stipulates that judicial power will be shared by the Supreme Justice Tribunal (previously known as the Supreme Court), the Departments of Justice in each

department, and the local courts in each municipality. There is a special jurisdiction for agriculture and environmental matters, as well as one for indigenous justice. A new law is necessary to regulate the composition of the future Constitutional Tribunal and delineate judicial powers.

¶6. During the December 6 national elections 12 of Bolivia's 327 municipalities voted in favor of indigenous self-government. This concept of "indigenous autonomy" is new and the details of how it will function remain to be legislated by Congress. However, the constitution does stipulate that this status will give them control over the natural resources on their land and a greater say in how to use funds transferred from the federal government. In addition, legal disputes and crimes in these municipalities will be tried in traditional courts.

¶7. The GOB is taking action to exert state control over key sectors of the economy. The new constitution specifies that natural resources are state property and that the state will assume control over their exploration, exploitation, industrialization, transport, and marketing (Articles 348 and 351). In the case of hydrocarbons, the new constitution declares all hydrocarbons to be the property of the Bolivian people and cancels any existing contract that violates this principle. At present, the state-owned and operated company, Yacimientos Petrol????feros Fiscales Bolivianos (YPFB), manages hydrocarbons and must satisfy the domestic market at prices set by the hydrocarbons regulator before exporting. Since taking office, the Morales administration has also nationalized, by obtaining a controlling stake and therefore management control, in Bolivia's largest tin mine, a smelting plant, the largest telecommunications company, and the gas transport industry. The government has also publically announced that additional sectors, including the national pension system, water, electricity, and transportation, could be nationalized.

¶8. The economy is described by the following key investment climate indicators:

Transparency International Corruption Perceptions Index:

120

Heritage Index of Economic Freedom:

130

World Bank Ease of Doing Business Rank:

161

MCC Government Effectiveness:

47%

MCC Rule of Law:

42%

MCC Control of Corruption:

79%

MCC Fiscal Policy:

61%

MCC Trade Policy:

94%

MCC Regulatory Quality:

25%

MCC Business Start Up

33%

MCC Land Rights Access

80%

MCC Natural Resource Management

87%

Conversion and Transfer Policies

¶9. Currency is freely convertible at Bolivian banks and exchange houses. The official exchange system is described as an "incomplete crawling peg." This means the exchange rate is fixed, but undergoes readjustments which are not pre-announced to the public. The Bank conducts a daily auction of dollars during which it offers a given amount of dollars at a set minimum price. The authorities have held Bolivia's exchange rate at 7.07 Bolivianos (Bs)/U.S. $1 since October 2008. The parallel rate closely tracks the official rate, suggesting the market finds the Central Bank's policy acceptable.

¶10. Current Bolivian law allows the repatriation of profits after paying a 12.5% withholding tax. In addition, all bank transfers in U.S. dollars within and leaving the country must

pay a financial transaction tax (ITF) of .03%. Any hard-currency cash transport greater than U.S. $10,000 must be registered with and authorized by the Central Bank and Ministry of Finance.

¶11. Banking law (Law 1488, 1993) establishes regulations for foreign currency hedging and authorizes banks to maintain accounts in foreign currencies. A significant, but dropping, percentage of deposits are denominated in U.S. dollars.

Expropriation and Compensation

¶12. The Bolivian Constitution allows the government to expropriate property for the public good or when the property does not fulfill a "social purpose" (Article 57). Noncompliance with the social function of land, tax evasion, or the holding of large acreage is cause for reversion and the land will pass into the ownership of the Bolivian people (Article 401). Such expropriation of land will be preceded by payment of just indemnification. The constitution also gives workers the right to take over companies that are closed or abandoned (Article 54).

¶13. The current mining and hydrocarbons laws outline procedures for expropriating land to develop underlying concessions. In 2007, the Bolivian government nationalized the

Vinto smelter belonging to Swiss company Glencore; the smelter is now run by the state mining company COMIBOL. COMIBOL also regained control of the Huanuni tin deposit, evicting small cooperative mining operations that had previously been given rights to exploit portions of the deposit and returning all Huanuni mining to state control. The Morales administration has signaled its intent to reactivate the mining industry by developing a new mining code redefining the state's ownership of mining operations and taxes on transnational mining companies' profits. The proposed MAS tax plan is a 50-50 split on the profits, up from 35 percent, and the elimination of a sales tax credit that companies can currently apply to their income tax.

Dispute Settlement

¶14. Property and contractual rights are enforced in Bolivian courts, but the legal process is time consuming and may be subject to political influence and corruption. Bolivia's Commercial Code (Law 14379, 1977) has roots dating from 1939. Although many of its provisions have been modified and supplanted by more specific legislation, it continues to provide general guidance for commercial activities.

¶15. The new constitution includes provisions that when operationalized could significantly change the business environment in Bolivia. It provides that the constitution holds precedence over international law and treaties (Article 410), that new laws can be applied retroactively in workplace cases where the workers or accused would benefit (Article 124), and that the state will resolve conflicts between employers and employees (Article 50).

¶16. In addition, although the current investment law grants international companies the (contractual) right to international arbitration in all sectors, this conflicts with provisions of the new constitution. Existing investment law states that international agreements, such as the Convention on the Settlement of Investment Disputes between States and Nationals of

Other States and the New York Convention of 1958 on the Recognition and Enforcement of Foreign Arbitral Awards, must be honored. It also mandates the recognition of foreign decisions and awards and establishes procedures for the Supreme Court's execution of decisions. However, the new constitution limits foreign companies' access to international arbitration in the case of conflicts with the government. It also states that all bilateral investment treaties must be renegotiated to incorporate this and other relevant provisions of the new constitution. The United States-Bolivia Bilateral Investment Treaty (BIT), which entered into force in June 2001, is likely to be affected by this action as the treaty guarantees recourse to international arbitration. However, until a treaty is renegotiated or terminated, the constitution protects the integrity of all international agreements.

¶17. In October 2007, Bolivia became the first country ever to withdraw from the International Center for the Settlement of Investment Disputes (ICSID), a World Bank body that referees contract disagreements between foreign investors and host countries.

Performance Requirements and Incentives

¶18. Bolivia's overall trade policy continues to be based on a free-market model which generally does not apply specific restrictions to trade in goods and services, such as permits or prior licenses, with the exception that, as of January

2008, all importers must register with the Bolivian National Customs Office. Measures that do exist apply to cases where there is a potential for danger to human, animal, or plant health; to protect the country's artistic or cultural heritage; and to ensure the security of the state. Specific measures have been enacted with regard to agricultural products, used clothing, and used cars.

¶19. The Bolivian government does not impose performance requirements as conditions for establishing, maintaining, or expanding businesses. It does not generally provide tax or investment incentives for foreign investors, but some municipalities have established property tax exemptions for businesses located in their areas.

¶20. Bolivian labor law limits the ability of foreign firms to globally staff their companies by asserting that foreign employees are restricted to 15% of the work force and that foreign employees should be part of the technical staff. Financial sector regulations restrict extraordinary compensation for managers and senior executives.

Right to Private Ownership and Establishment

¶21. Overall, freedom to start, operate, and close a business is restricted by Bolivia's regulatory environment. Starting a business takes an average of 50 days. Obtaining a business license requires 18 different steps that take, on average, 225 days to complete. However, foreign and domestic private entities have equal right to establish, acquire, and dispose of business interests and to engage in remunerative activity. Private and public entities enjoy equal access to markets, credit, licenses, and supplies.

Protection of Property Rights

¶22. The agrarian law (Law 1715, 1996) outlines the rights and obligations of land ownership and establishes an independent Agrarian Superintendent to administer the law's provisions. In November 2006, the agrarian law was modified (Law 3545) to stipulate that property deemed unproductive in reviews by the National Institute of Agrarian Reform (El Instituto Nacional de Reforma Agraria - INRA) twice a year will revert to the state (although it is unlikely the INRA will have the capacity to conduct reviews this frequently). This law also places limits on landowners' legal recourse in such cases. The new Bolivian constitution similarly stipulates the right to private property as long as it serves a social function and is not against the collective interest (Articles 56 and 57). In cases of public necessity, or where property is not serving a public function, it will be expropriated.

¶23. The new constitution also granted formal collective land titles to indigenous communities. The Office of Property Registry oversees the acquisition and disposition of land, real estate, and mortgages. Bolivia lacks an adequate system of title verification and challenges to land titles are common. Competing claims to land titles and the absence of a reliable dispute resolution process create risk and uncertainty in real property acquisition. Illegal squatting on rural private property is an ongoing problem. Mortgages are easily obtained. It takes at most 60 days to obtain a standard loan.

¶24. The copyright law (Law 1322, 1992) protects literary, artistic, and scientific works for the lifetime of the author plus 50 years. Bolivian copyright protection includes the exclusive right to copy or reproduce works; to revise, adapt, or prepare derivative works; to distribute copies of works; and to publicly communicate works. Although the exclusive right to translate works is not explicitly granted, the law does prevent unauthorized adaptation, transformation, modification, and editing. The law also provides protection for software and databases.

¶25. The copyright law protects the rights of Bolivian authors, foreign authors domiciled in Bolivia, and foreign authors published for the first time in Bolivia. Foreigners not domiciled in Bolivia enjoy protection to the extent provided in international conventions and treaties to which Bolivia is a party. Bolivia belongs to the World Intellectual Property Organization and is a signatory to the Nice Agreement and the Paris, Bern, and Geneva Conventions. The National Intellectual Property Service (SENAPI) reviews patent registrations for form and substance and publishes notices of proposed registrations in the Official Gazette. If there are no objections within 30 working days, the organization grants patents for a period of 20 years.

¶26. The film and video law (Law 1302, 1991) contains elements of IPR protection, establishing a National Movie Council (CONACINE) to oversee the domestic film industry and requiring that all films and videos shown or distributed in Bolivia be registered with the organization.

¶27. The registration of trademarks parallels that of patents. Once obtained, a trademark is valid for a 10-year renewable period. It can be cancelled if not used within three years of the date of grant.

¶28. Bolivia has no laws protecting trade secrets.

¶29. While the new Bolivian constitution specifies that the state will register and protect intellectual property, including "collective intellectual property rights", it also explicitly states that "the right to access to medicines may not be restricted by intellectual property rights" (Article 41.2). The existing copyright law recognizes copyright infringement as a public offense and the 2001 Bolivian Criminal Procedures Code provides for the criminal prosecution of IPR violations. However, the enforcement of intellectual property rights remains insufficient, and Bolivia remains on the U.S. Trade Representative's Special 301 Watch List. Video, music, and software piracy rates are among the highest in Latin America, with the International Intellectual Property Alliance estimating that piracy levels have reached 100 percent for motion pictures and over 90 percent for recorded music.

Transparency of the Regulatory System

¶30. The regulatory system was completely changed in February 2009 through a Supreme Decree that granted the various government ministries responsibility for regulating sectors under their purview. However, the new system has not been put into practice yet and therefore, it remains unclear how transparent or consistent it will be in operation.

¶31. The new constitution forbids any private monopoly (Article 314). This prohibition is enforced through specific laws that also ban unfair commercial competition. There are also

several sector-specific articles governing activity in specific industries. For example, Supreme Decree 0071 (April 9, 2009) created the Supervisory and Management Authorities which regulate transportation and telecommunications, drinking water and basic sanitation, electricity, land and forests, and pensions. A similar regulatory system governs the financial sector. Commercial banking has its own regulator, separate from that of pension and stocks. Furthermore, the Criminal Code establishes sanctions for those that commit fraud against buyers.

¶32. Although most accounting regulations follow international principles, Bolivian accounting and reporting procedures do not fully conform to world standards. Bolivian firms commonly maintain several accounting books: one for tax authorities, one for bankers, and another for management.

Efficient Capital Markets and Portfolio Investment

¶33. Bolivian commercial banks were once closely held operations lending only to well-known individuals or firms, but foreign and national institutions now play a role in the banking system. Bolivian banks have developed the capacity to adjudicate credit risk and evaluate expected rates of return in line with international norms. In 2007, the government created a Productive Development Bank (PDB) to boost the production of small, medium-sized and family-run businesses. Soft loans are offered by this bank. The current estimated total assets of the country's largest banks are 57 billion Bolivianos (approximately US $8.06 billion).

¶34. Credit is allocated on market terms, but foreign

investors may find it difficult to qualify for loans from local banks due to the requirement that domestic loans be issued exclusively against domestic collateral. Since commercial credit is generally extended on a short-term basis at high interest rates, most foreign investors prefer to obtain credit abroad. Most Bolivian borrowers are small- and medium-sized enterprises (SMEs).

¶35. Established Bolivian firms may issue short- or medium-term debt in local capital markets, which act primarily as secondary markets for fixed return securities. Bolivian capital markets have sought to expand their handling of local corporate bond issues and equity instruments. The securities law (Law 1834, 1998) laid the groundwork for creating a truly modern securities exchange, but social unrest and economic disruptions have slowed its development. Over the last few years, several Bolivian companies and some foreign firms have been able to raise funding through local capital markets.

Competition from State-Owned Enterprises

¶36. The GOB is placing increasing emphasis on public enterprise and state control over key sectors of the economy. The current administration has re-nationalized several large industries including much of the telecommunications industry (May 2008) and the gas transport industry (June 2008). In September 2009, the GOB began focusing on the energy sector and started re-nationalization negotiations with hydroelectric plants that were transferred 12 years ago to the private sector. The government has also announced that additional sectors, including water and transportation, could be nationalized in the near term.

¶37. In an effort to create a "productive state," avoid monopolies, and generate employment, the GOB has created 10 out of 13 proposed public companies in strategic sectors (food production - dairy products and sugar, industrialization of natural resources - paper and cardboard products, and internal and external market sales, a domestic airline, and a cement factory). These state-owned companies are run by a state appointed board of directors. Each director represents a ministry. The general manager is usually appointed by a Supreme Resolution. Private sector entities complain that these public companies generate subsidized, unfair competition with the existing private sector and are leading to a state-driven economic system.

¶38. The new Bolivian constitution states that all natural resources will be administered by the government of Bolivia (Article 351). The government will grant ownership rights, and will control the exploitation, exploration, and industrialization of natural resources through public companies, communities, and private companies who will enter joint ventures with the public sector.

¶39. The constitution also specifically stipulates that all hydrocarbon deposits, whatever their state or form, belong to the government of Bolivia. No concessions or contracts may transfer ownership of hydrocarbon deposits to private or other interests. The GOB exercises its right to explore and exploit hydrocarbon reserves and trade related products through YPFB. YPFB benefitted from government action in 2005 that required operators to turn over all of their production to it and to sign new contracts that gave YPFB control over the distribution of gasoline, diesel, and LPG to gas stations. The new law allows YPFB to enter into joint venture contracts for limited periods of time with national or foreign individuals or companies wishing to exploit or trade hydrocarbons or their derivatives. A similar proposed change to the mining code could require all companies to enter into joint ventures with the state mining company, COMIBOL.

¶40. Bolivia does not have a sovereign wealth fund. Banco Sur, whose members include Argentina, Bolivia, Brazil, Ecuador, Paraguay, Uruguay, and Venezuela, is a monetary fund and lending organization to nations in the Americas for the construction of social and infrastructure programs. This bank, which finances economic development projects to improve local competitiveness and promote scientific and technological development of the member states will begin operating in 2010.

Corporate Social Responsibility

¶41. The new Bolivian constitution stipulates that the right to pursue economic activity cannot damage the collective good (Article 47). Bolivian business has demonstrated an increasing awareness of, and interest in, issues of Corporate Social Responsibility (CSR) in recent years. A number of major companies have dedicated CSR programs and the business press this year highlighted a study done by PriceWaterhouseCoopers that identified the country's best programs.

¶42. A leading trade think tank, the Instituto Boliviano de Comercio Exterior (IBCE) has developed the "Triple Sello" (triple stamp). This independently audited certification scheme establishes that a business is free from child labor, free from discriminatory practices, and free from forced labor. They expect to certify their first Bolivian company in 2010. There are also a number of other organizations working in the field including Emprender Foundation, the local Junior Achievement affiliate; the Bolivian Corporation on Corporate Social Responsibility (Corporacion Boliviana de Responsabilidad Social Empresarial -

COBORSE) , a nonprofit organization to promote and disseminate Corporate Social Responsibility among companies and organizations operating in Bolivia; and the Center for Promotion of Sustainable Technology (Centro de Promoci????n de Tecnolog????as Sostenibles or CPTS), a USAID-funded component of the National Chamber of Industry (C????mara Nacional de Industrias) dedicated to promote the concept and practice of clean technology. This last sponsored a national CSR prize in 2009. The winner will be announced in January 2010.

¶43. Individual sectors have undertaken CSR initiatives, most notably the mining companies and the forestry concessions. The miners have developed a working partnership with local communities and exhibit a relatively higher level of awareness. These companies have been recognized through well-publicized awards. Since 1996, the forestry sector has been a world leader in promoting sustainable forestry, with more than 2 million hectares of certified forest. The Forestry Association (C????mara Forestal de Bolivia) supports a certification fund that provides economic assistance to any forestry operator that wishes to certify.

Political Violence

¶44. Bolivia is prone to social unrest that includes violence and disruption of the transportation of goods and people and political unrest will likely continue in the near future. Throughout the last year, various groups have staged large-scale protests and blockaded roads. On several occasions, major airports have been completely shut down, and in September of 2008, American Airlines canceled their flights in and out of the country for over 20 days due to the takeover of the Santa Cruz airport by demonstrators.

Corruption

¶45. Contraband and corruption continue to be important issues in Bolivia, reflecting the country's large informal economy and the prevalence of tariff and tax evasion. Approximately 34% of total imports are smuggled into the country. Bolivia ranks 120 out of 180 countries on Transparency International's most recent Corporate Perceptions Index (CPI). Recently, the President of Brightstar Corporation, a U.S.-based, privately-held worldwide distributor of mobile phone and wireless infrastructure products and services, announced he was canceling plans to establish a cellular telephone assembly plant in Bolivia due to the fact that it was impossible to compete in a market where 90% of the cell phones are sold on the informal market.

¶46. Officials accused of corruption are rarely prosecuted or convicted. However, in 2005, the Bolivian government introduced a series of reforms to modernize its operations, improve existing legislation, and increase citizen participation in politics, augmenting the existing Financial Administration and Control (SAFCO) Law, with the State Employees Statute Act, and the Sworn Declaration of Property and Income Law. The government also created a Judiciary Council and a Civil Service Superintendent. The new constitution incorporates a Human Rights Ombudsman whose job it is to protect civilians from government abuses. The Vice Minister of Anticorruption is charged with promoting policies against corruption and is empowered to investigate corruption at any level in any branch of government. In January 2009, congress announced its intention to pass a corruption law.

¶47. Bolivia's National Integrity Plan outlines proposals for judicial reform and state modernization. Under the government's Institutional Reform Project (PRI), the Customs Service, the National Revenue Service, and the Ministries of Housing, Education, and Agriculture have been reformed and professionalized. The National Road Service was disbanded for corruption in 2006 and replaced by another government entity, the Bolivian Highway Association.

Bilateral Investment Agreements

¶48. Bolivia has signed bilateral investment treaties (BITs) with Argentina, Belgium/Luxembourg, China, France, Germany, Italy, Mexico, the Netherlands, Peru, Romania, Spain, Switzerland, the United Kingdom, and the United States. However, as indicated above the new Bolivian constitution includes provisions that require renegotiation of all the country's bilateral investment treaties.

¶49. The U.S.-Bolivia BIT entered into force in June ¶2001. Investors are entitled to the better of national treatment or most favored nation (MFN) treatment when they initiate an investment and while they maintain that investment, subject to certain limited and specifically described exceptions listed in annexes and protocols. Under the treaty, expropriation can occur only in accordance with international law, e.g., for a public purpose, in a nondiscriminatory manner, under due process of law, and in a manner accompanied by prompt, adequate, and effective compensation. Investors have the right to promptly transfer funds into and out of either country using market exchange rates. This covers all investment-related transfers, including interest, liquidation proceeds, repatriated profits, and infusions of

additional financial resources after initial investments. The ability of either government to require investors to adopt inefficient and trade-distorting practices is limited, and performance requirements such as local content and export quotas are prohibited. Investors have the right to submit an investment dispute with the treaty partner's government to international arbitration, with no obligation to use the host country's domestic courts. Several cases have been brought against the Bolivian government relating to their nationalization efforts (both in international and local courts), but most have been settled outside of court. Investors also have the right to employ the top managerial personnel of their choice, regardless of nationality.

¶50. Bolivia is a member of the Andean Community (Comunidad Andina, or CAN) and the "Bolivarian Alternative for the Americas" (ALBA). CAN is made up of four countries (Bolivia, Columbia, Ecuador, and Peru). Under this agreement, products from members countries enter other member countries duty free. ALBA is a 9-member alliance of South American and Caribbean countries that wish to ally with Venezuela's vision for "a new socialism for the 21st century." The agreement includes a trade agreement component that was signed in April 2006. However, trade amongst the nations remains relatively small.

¶51. With the United States, Bolivia currently benefits from the General System of Preferences. Under this agreement more than 5,000 agricultural and industrial products enter the U. S. duty-free from more the 150 developing countries. In addition, Bolivia previously enjoyed trade benefits under the Andean Trade Promotion and Drug Eradication Act (ATPDEA). However, Bolivia was suspended from the program effective December 15, 2008, when President Bush found that the country failed to meet the anti-narcotics provisions of the law. Since the suspension was not lifted in June 2009, Bolivia was permanently removed from the legislation. In December 2009 the ATPDEA legislation was extended for one year. The U.S. Congress left the wording of the legislation the same, thereby excluding Bolivia from the possibility of ATPDEA preferences.
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OPIC and Other Investment Insurance Programs

¶52. The 1985 U.S.-Bolivia Investment Insurance Agreement provides for a full range of Overseas Private Investment Corporation (OPIC) programs, including political risk insurance and loan financing. OPIC provides financing assistance to U.S. firms through direct loans and guarantees issued by U.S. financial institutions.

¶53. The International Bank for Reconstruction and Development's (IBRD) Multilateral Investment Guarantee Agency (MIGA) has offered a complete line of investment guarantees to foreign investors in Bolivia since October 1991.

Labor

¶54. Approximately two-thirds of Bolivia's population of 9.8 million is considered "economically active," a figure that includes teenagers and children legally prohibited from working. Bolivian labor law restricts child labor and provides for worker safety, but enforcement is often ineffective. Overall, between 60 and 65 percent of laborers participate in the informal economy, where no contractual employer-employee relationships exist. Relatively low education and literacy levels tend to limit labor productivity, a fact reflected in wage costs. Unskilled labor is readily available, but skilled workers are often harder to find.

¶55. Bolivia ranks worst in the world (183 out of 183) on the World Bank's index of flexibility of labor regulations, with overall rigidity in hiring and firing high. The new constitution specifies that unjustified firing from jobs is forbidden and that the state will resolve conflicts between employers and employees (Articles 49.3 and 50). Bolivian labor law guarantees workers the right of association and the right to organize and bargain collectively. Most companies are unionized, and nearly all unions belong to the Confederation of Bolivian Workers (COB). Despite international perceptions, extensive labor unrest in the private sector is uncommon, and most foreign firms enjoy positive labor-management relations.

Free Trade Zones

¶56. The Bolivian government created 13 commercial/industrial free trade zones (FTZs) through the country's nine provinces, including zones in the main cities of EI Alto, Cochabamba, Santa Cruz, Oruro, Puerto Aguirre, and Desaguadero. The National Council on Free Trade Zones (CONZOF) oversees all industrial and commercial FTZs and authorizes operations.

Foreign Direct Investment Statistics

¶57. According to Bolivian Central Bank statistics, FDI between January and September 2009 netted U.S. $264.8 million. During the same period in 2008, the figure was U.S. $480.2 million. In 2009, U.S. investments accounted for approximately 13% (U.S. $60 million) of foreign direct investment inflows. Higher levels of investment were made by Spain (U.S. $105 million) and Brazil (U.S. $98 million).
Creamer